

**REPORT OF THE AUDIT OF THE
MERCER COUNTY
CLERK**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MERCER COUNTY CLERK

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the Mercer County Clerk's audit for the year ended December 31, 2005. We have issued a qualified opinion on the financial statement taken as a whole. The County Clerk did not provide us with a signed representation letter as required by auditing standards generally accepted in the United States of America.

Financial Condition:

Excess fees earned totaled \$99,686; however, available funds for payment only totaled \$89,521, resulting in a deficit of \$10,165 for the year ended December 31, 2005. This deficit is primarily attributed to un-deposited receipts of approximately \$6,727 and disallowed expenditures of \$2,706. This matter is being referred to the Kentucky State Police for further investigation.

Debt Obligations:

Capital lease principal agreements totaled \$41,110 as of December 31, 2005. Future principal and interest payments of \$124,999 are needed to meet these obligations.

Report Comments:

- The County Clerk Had A Deficit In His Official Fee Account As Of December 31, 2005
- The County Clerk Should Deposit All Receipts Into His Official Bank Account
- The County Clerk Should Expend Public Funds For Allowable Expenses Of The County Clerk's Office
- The County Clerk Should Handle Public Funds As Required By KRS 68.210
- The County Clerk Should Monitor And Reconcile Accounts Receivable Transactions And Ensure That All Receivables Are Collected
- The County Clerk Should Not Hold Checks Received
- The County Clerk Should Maintain Better Documentation For Insufficient Funds Checks
- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities or bonds.

Subsequent Events:

There were un-deposited receipts of \$11,123 in the County Clerk's office from January 1, 2006 through July 14, 2006 based on comparison of the daily checkout sheets to bank deposits. This matter is being referred to the Kentucky State Police for further investigation.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS	9
COMMENTS AND RECOMMENDATIONS	13
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	21



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John D. Trisler, Mercer County Judge/Executive
Honorable Ronnie Compton, Mercer County Clerk
Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Mercer County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The County Clerk did not provide us with a representation letter as required by auditing standards generally accepted in the United States of America.

In our opinion, except for the effects of any matters that might have been disclosed if we had been provided a representation letter, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2005, in conformity with the regulatory basis of accounting.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.



The Honorable John D. Trisler, Mercer County Judge/Executive
Honorable Ronnie Compton, Mercer County Clerk
Members of the Mercer County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2006, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Had A Deficit In His Official Fee Account As Of December 31, 2005
- The County Clerk Should Deposit All Receipts Into His Official Bank Account
- The County Clerk Should Expend Public Funds For Allowable Expenses Of The County Clerk's Office
- The County Clerk Should Handle Public Funds As Required By KRS 68.210
- The County Clerk Should Monitor And Reconcile Accounts Receivable Transactions And Ensure That All Receivables Are Collected
- The County Clerk Should Not Hold Checks Received
- The County Clerk Should Maintain Better Documentation For Insufficient Funds Checks
- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Mercer County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 30, 2006

MERCER COUNTY
 RONNIE COMPTON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State Fees For Services	\$	2,177
-------------------------	----	-------

Fiscal Court		3,794
--------------	--	-------

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	555,772
------------------------	----	---------

Usage Tax		1,602,689
-----------	--	-----------

Lien Release Fees		6,830
-------------------	--	-------

Miscellaneous Income		1,950
----------------------	--	-------

Tangible Personal Property Tax		1,679,147
--------------------------------	--	-----------

Other-

Marriage Licenses		5,830
-------------------	--	-------

Deed Transfer Tax		89,553
-------------------	--	--------

Delinquent Tax	263,843	4,205,614
----------------	---------	-----------

Fees Collected for Services:

Recordings-

Bail Bonds		231
------------	--	-----

Chattel Mortgages and Financing Statements		60,424
--	--	--------

Deeds		16,224
-------	--	--------

Leases		79
--------	--	----

Liens and Lis Pendens		3,288
-----------------------	--	-------

Powers of Attorney		2,820
--------------------	--	-------

Releases		17,802
----------	--	--------

Real Estate Mortgage/Fixture Filing		52,044
-------------------------------------	--	--------

Miscellaneous		5,925
---------------	--	-------

Wills, Estate Settlement and Accomodations		1,032
--	--	-------

Charges for Other Services-

Candidate Filing Fees		1,700
-----------------------	--	-------

Copywork		11,393
----------	--	--------

Refunds/Overpayments	1,693	174,655
----------------------	-------	---------

Other:

Child Victims Fund		10
--------------------	--	----

Miscellaneous	18	28
---------------	----	----

Interest Earned		1,297
-----------------	--	-------

Total Revenues		4,387,565
----------------	--	-----------

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
 RONNIE COMPTON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	430,789	
Usage Tax		1,551,427	
Tangible Personal Property Tax		600,732	
Licenses, Taxes, and Fees-			
Delinquent Tax		39,479	
Legal Process Tax		20,006	\$ 2,642,433

Payments to Fiscal Court:

Tangible Personal Property Tax	110,263	
Delinquent Tax	26,764	
Deed Transfer Tax	87,298	224,325

Payments to Other Districts:

Tangible Personal Property Tax	900,946	
Delinquent Tax	127,555	1,028,501

Payments to Sheriff 4,589

Payments to County Attorney 42,217

Operating Expenditures:

Personnel Services-

Deputies' Salaries 188,925

Contracted Services-

Office Equipment 1,100

Materials and Supplies-

Office Supplies 24,132

Refunds 5,686

Other Charges-

Miscellaneous Bank Transactions 66

Clerk's Insurance and Bonds 10

Miscellaneous Clerk Office Supplies 7,550

Dues 795

Postage 4,108

Uncollected NSF Checks 375 232,747

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
 RONNIE COMPTON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures (Continued)

Debt Service:

Lease Purchases	\$ 41,110	
-----------------	-----------	--

Total Expenditures		\$ 4,215,922
--------------------	--	--------------

Less: Disallowed Expenditures

Miscellaneous	(876)	
Advertising	(1,605)	
Donations/Contributions	(225)	

Total Disallowed Expenditures		(2,706)
-------------------------------	--	---------

Total Allowable Expenditures		4,213,216
------------------------------	--	-----------

Net Revenues		174,349
--------------	--	---------

Less: Statutory Maximum		69,466
-------------------------	--	--------

Excess Fees		104,883
-------------	--	---------

Less: Expense Allowance	3,600	
Training Incentive Benefit	1,597	5,197

Excess Fees Due County for 2005		99,686
---------------------------------	--	--------

Payment to Fiscal Court - February 6, 2006		65,000
--	--	--------

Balance Due Fiscal Court at Completion of Audit		\$ 34,686
---	--	-----------

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 4. Leases

The County Clerk's office was committed to the following lease agreements as of December 31, 2005:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2005
4 Copiers	\$ 615	48 Months	February 2008	\$ 15,370
Software/Hardware	\$ 2,811	60 Months	April 2009	\$ 109,629

Note 5. Subsequent Events:

There were undeposited receipts of \$11,123 in the County Clerk's office from January 1, 2006 through July 14, 2006 based on comparison of the daily checkout sheets to bank deposits. This matter is being referred to the Kentucky State Police for further investigation.

MERCER COUNTY
RONNIE COMPTON, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2005

Assets

Cash in Bank	\$ 274,537
Deposits in Transit	29,472
Receivables	<u>20,623</u>
Total Assets	<u>324,632</u>

Liabilities

Paid Obligations:	
Outstanding Checks/Liabilities	300,111
Unpaid Obligations:	
Excess Fees - 2005	<u>34,686</u>
Total Liabilities	<u>334,797</u>
Total Fund Deficit as of December 31, 2005	<u><u>\$ (10,165)</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENTS AND RECOMMENDATIONS

MERCER COUNTY
RONNIE COMPTON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

2005-1 The County Clerk Had A Deficit In His Official Fee Account As Of December 31, 2005

The County Clerk is responsible for a deficit of \$10,165 in his official bank account as of December 31, 2005. This deficit is attributed to \$6,727 of undeposited receipts, \$2,706 of disallowed expenditures and an unidentified variance of \$732. We recommend that the County Clerk eliminate the \$10,165 deficit with a deposit of personal funds to his official bank account. This matter is being referred to the Kentucky State Police for further investigation.

County Clerk's Response: None

2005-2 The County Clerk Should Deposit All Receipts Into His Official Bank Account

During our audit we noted several instances where the daily checkout sheet totals were more than the daily bank deposits made by the County Clerk, reflecting undeposited receipts. To get an accurate amount of undeposited receipts, we compared daily checkout sheets to daily bank deposits for 2005. Based on this comparison, we determined undeposited receipts totaled \$6,727 for the audit period. This should result in adjusting journal entries for overages and shortages in the cash drawer transaction subsidiary ledger, and in the official's financial statement. In order to determine if these amounts had been correctly posted, auditors compared the amounts posted as cash drawer transactions per the County Clerk's ledger and financial statement to the amounts of overages and shortages per auditor's calculations described above. This comparison revealed that shortages and overages did not agree to amounts posted to the cash drawer transactions ledger account or the cumulative cash drawer transaction total of (\$1,966) reflected on the County Clerk's financial statement. Based on inquiry, the County Clerk was aware of the shortages and the fact that amounts posted to the ledger did not agree since he prepared and made the daily deposits which he also compared to the daily checkout sheet and receipts ledger postings.

The undeposited receipts make up \$6,727 of the shortage in the County Clerk's official bank account for 2005.

There are additional undeposited receipts of \$11,123 from January 1, 2006 through July 14, 2006, based on the available records and comparisons of daily checkout sheets and daily deposits. We recommend that the County Clerk take appropriate measures to ensure that all public monies entrusted to him, based on the statutory authority of his office, be deposited into his official bank account. This matter is being referred to the Kentucky State Police for further investigation.

County Clerk's Response: None

MERCER COUNTY
 RONNIE COMPTON, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2005
 (Continued)

2005-3 The County Clerk Should Expend Public Funds For Allowable Expenses Of The County Clerk's Office

During our audit of the County Clerk's fee account for 2005, we identified a total of \$2,706 in expenditures that are not considered allowable. In Funk v. Milliken, 317 S. W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Technical Audit Bulletin 93-001, Sections 3 and 4, which are based upon Funk v. Milliken, enumerates the categories of expenditures that are not allowable.

Our testing procedures indicate the County Clerk made expenditures specifically identified in Technical Audit Bulletin 93-001 as unallowable. The following schedule provides a breakdown of the 2005 expenditures that are not considered allowable:

Expenditure Category		
Advertising		\$1,604.50
Donations & Contributions		225.00
Miscellaneous:		
Goodie Baskets	\$ 34.80	
Refrigerator	399.88	
Coffee Maker	16.95	
Microwave	89.75	
TV	89.97	
Flowers	159.00	
Wal-Mart (No supporting Documentation)	85.60	875.95
TOTAL		\$2,705.45

We recommend the County Clerk only make expenditures from his fee account that are reasonable and necessary for the operation of his office, adequately documented, beneficial to the public, and not primarily personal in nature, per Technical Audit Bulletin 93-001. Also, we recommend the County Clerk deposit personal funds in the amount of \$2,706 into the 2005 fee account in order to reimburse the fee account for these disallowed expenditures.

County Clerk's Response: None

MERCER COUNTY
RONNIE COMPTON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2005-4 The County Clerk Should Handle Public Funds As Required By KRS 68.210

During our audit it was noted that deposit amounts did not agree to daily checkout sheet totals, receipts were not issued in triplicate or retained by the County Clerk, and monthly bank reconciliations were not completed.

The County Clerk by virtue of office has been given the responsibility for collecting certain monies. Unless otherwise specified by statute, the handling of these funds should be in accordance with the requirement for handling all county funds. The following are guidelines for minimum accounting and reporting standards as prescribed by the state local finance officer pursuant to KRS 68.210.

- Pre-numbered three-part receipt forms should be issued for all receipts with the original to be given to the payor, a copy to be attached in sequential order to the daily cash checkout sheet or the daily deposit record and a copy to remain in the file. Voided receipts should also be marked, with copies one and two kept in numerical order with checkout records and copy three remaining in the file (KRS 64.840).
- Daily deposits should be made intact with a federally insured banking institution (KRS 68.210). Deposit amounts should be agreed to the daily checkout sheet and receipts ledger posting.
- Personal funds should be kept separate from public funds (KRS 64.850). Commingling of public and private funds by a fee official is prohibited. It shall be unlawful for any county official to deposit public funds with individual or private funds in any bank or other depository or for any such official to withdraw public funds for any purpose other than that for which they were received and deposited.

We recommend the County Clerk review KRS 68.210 in its entirety regarding the Uniform System of Accounts. We further recommend that he take appropriate measures to ensure compliance with these requirements.

County Clerk's Response: None

2005-5 The County Clerk Should Monitor And Reconcile Accounts Receivable Transactions And Ensure That All Receivables Are Collected

The County Clerk's financial statement for 2005 reported an accounts receivable balance of \$4,939. The County Clerk was unable to provide documentation to substantiate this amount and was unable to explain who owed these amounts and why they had not been collected. Further inquiry revealed that no monitoring or reconciliation of the accounts receivable ledger occurred. As this amount could not be substantiated we could not give credit for this amount on the County Clerk's financial statement. In the future, we recommend that the use of accounts receivable be minimal and that this account, if used, be monitored, adequately documented, and reconciled on a monthly basis. We also remind the County Clerk that when he allows customers to charge, he assumes responsibility for accounts receivable and their subsequent collection.

County Clerk's Response: None

MERCER COUNTY
RONNIE COMPTON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2005-6 The County Clerk Should Not Hold Checks Received

During our audit, it was discovered that, in some instances, the County Clerk was holding checks received for payments from customers. Per KRS 68.210, "daily deposits should be made intact." We recommend that all monies collected by the County Clerk each day, whether in the form of cash or check, be deposited into the County Clerk's official fee account, thereby eliminating the practice of holding checks received as payment.

County Clerk's Response: None

2005-7 The County Clerk Should Maintain Better Documentation For Insufficient Funds Checks

During our audit, we found it difficult to determine the amount of insufficient funds checks (NSF) that were still outstanding for 2005. This was due in part to the fact that the County Clerk did not maintain adequate documentation on payments received for NSF collections and that separate deposits were not made for collections of this nature. The practice of making separate deposits for NSF collections would create better accounting records and increase internal controls over NSF checks and their collection. In order to expedite future audits and create better internal controls, we recommend that the County Clerk make separate deposits for NSF collections. We also recommend that he maintain ledger accounts on NSF checks returned and payments received to redeem NSF checks. The ledger postings for NSF checks should be monitored and reconciled by the County Clerk on a monthly basis.

County Clerk's Response: None

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

2005-8 The County Clerk's Office Lacks Adequate Segregation Of Duties

We noted a lack of an adequate segregation of duties for the internal control structure and its operation. Due to the entity's diversity of official operations, small staff size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the County Clerk could implement some of the following procedures to establish some compensating controls to offset the lack of adequate segregation of duties.

- A deputy clerk should be responsible for preparing the daily checkout sheet, counting cash and checks to be deposited for that day and for preparing the bank deposit slip. The deputy clerk should initial the daily checkout sheet, the calculator tape documenting the total amount of cash and checks, and the bank deposit slip. By initialing these documents, the deputy clerk is verifying that all amounts are in agreement. If any variances are noted, they should be investigated and resolved immediately.

MERCER COUNTY
RONNIE COMPTON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:
(Continued)

2005-8 The County Clerk's Office Lacks Adequate Segregation Of Duties (Continued)

- The County Clerk should then verify these amounts are correct by recounting all cash and checks, running a separate calculator tape for documentation purposes. The County Clerk should initial the daily checkout sheet, his calculated amount of cash and checks, and the bank deposit slip to show agreement. Again, any variances should be investigated and resolved immediately. It is not necessary for the County Clerk to do this daily but on a periodic surprise basis only in order to establish a good compensating control.
 - The County Clerk should be responsible for taking this to the bank.
- A deputy clerk should compare receipts per the daily checkout sheet to amount posted per the County Clerk's receipts ledger. This deputy clerk should also compare source documents such as invoices, etc. to expenditures posted to the County Clerk's disbursements ledger. To show agreement, the deputy clerk should initial the daily checkout sheet, source documents, and the County Clerk's receipts and disbursements ledgers. Any variances noted should be investigated and resolved immediately.
 - The County Clerk should oversee this procedure and should perform periodic comparisons of the above. The County Clerk should document this by initialing the daily checkout sheet, source documents and the County Clerk's receipts and disbursements ledgers.
- A deputy clerk should prepare the monthly bank reconciliation. This deputy clerk should receive the bank statement unopened. The bank balance per the bank statement should be reconciled to the County Clerk's book balance. To show agreement, the deputy clerk should initial the monthly bank reconciliation and the County Clerk's ledger showing the ending book balance. Any variances noted should be investigated and resolved immediately.
 - The County Clerk should oversee this procedure and should perform periodic comparisons of the above. The County Clerk should document this by initialing the monthly bank reconciliation and the County Clerk's book balance.
- Adjusting journal entries, such as overages and shortages, accounts receivable, etc. should be well documented by the County Clerk.

MERCER COUNTY
RONNIE COMPTON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:
(Continued)

2005-8 The County Clerk's Office Lacks Adequate Segregation Of Duties (Continued)

- Additional compensating controls:
 - The County Clerk should cancel all invoices upon payment
 - The County Clerk should perform surprise cash counts
 - Disbursements should be made by check only
 - Disbursement checks should be signed by two people, with one signature being the County Clerk's
 - Deputies should be cross-trained to allow daily operations of the County Clerk's Office to proceed without delay in the County Clerk's absence.

County Clerk's Response: None

PRIOR YEAR:

The Clerk's Office Should Maintain Accurate Records - This comment has not been corrected and has been expanded into the preceding comments above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John D. Trisler, Mercer County Judge/Executive
Honorable Ronnie Compton, Mercer County Clerk
Members of the Mercer County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Mercer County Clerk for the year ended December 31, 2005, and have issued our report thereon dated August 30, 2006. Our opinion on the County Clerk's financial statement was qualified because of the County Clerk's failure to provide a representation letter as required by auditing standards generally accepted in the United States of America. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mercer County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Mercer County Clerk's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Clerk Had A Deficit In His Official Fee Account As Of December 31, 2005
- The County Clerk Should Deposit All Receipts Into His Official Bank Account
- The County Clerk Should Expend Public Funds For Allowable Expenses Of The County Clerk's Office
- The County Clerk Should Handle Public Funds As Required By KRS 68.210
- The County Clerk Should Monitor And Reconcile Accounts Receivable Transactions And Ensure That All Receivables Are Collected
- The County Clerk Should Not Hold Checks Received
- The County Clerk Should Maintain Better Documentation For Insufficient Funds Checks

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 30, 2006

